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Report Highlights: Spain's 2002 vintage is about 32 million hectoliters, an average yearly output. Domestic wine consumption continues to decline: gains in quality wine consumption were more than offset by losses in "table" wine consumption. Although exports increased last year to 10.6 million hectoliters, they are declining in 2002 due to reduced export sales of bulk "table" wines. Spain seeks protection for its geographical names, i.e. Jerez/Sherry and Malaga wines. Spain's parliament is drafting a new law which will effect production and marketing of wine.

Includes PSD changes: Yes

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Executive Summary

Spain's 2002 wine vintage is currently estimated at about 32 million hectoliters (one hectoliter = 100 liters), 1 million hectoliters more than in the preceding year. Quality has been hurt this year in several leading production areas due to unusually bad weather.

The long-lasting trend toward declining wine consumption continued last year. Total bottled wine sales in the distribution system in Spain fell to 12.3 million hectoliters in 2001, a 5.9 percent drop from previous year. The decline is entirely due to shrinking use of cheaper "table" wines. Consumption of quality wines is still growing, although last year's level was slightly below the record level of 1998. These same trends have continued during the first half of 2002.

Spanish wine exports in 2001 rose 13 percent in terms of volume (to 10.6 million hectoliters) and 10 percent in terms of value (to euro 1.42 billion). The main destinations, value basis, were the rest of the EU (72 percent), the United States (8 percent) Switzerland (5 percent), Japan (2 percent) and Norway, Canada and Mexico (1 percent each). The main EU markets for Spanish wines last year were Germany, the U.K. and Portugal. During the first seven months of 2002, the volume of Spanish wine exports decreased 11 percent over the comparable period of a year earlier due to a major drop in bulk "table" wine exports. For the next couple of years, current abundant inventories, coupled with competitive prices, should help to sustain Spanish wine exports at about 9.5 million hectoliters.

Wine imports in 2001 were severely cut to just 0.25 million hectoliters valued at euro 71 million. The reduction is mainly due to a severe cut in bulk "table" wine imports into Spain, which have declined dramatically during the last couple of years due to abundant local supplies. Spain's wine imports are mainly French champagne and a few narrow market segments of quality wines and "table" wines that come mainly from France, Italy and Portugal. During the first seven months of 2002, the volume of Spanish wine imports decreased by about 15 percent in both terms of volume and value over the comparable year-earlier period.

The Spanish-U.S. wine trade is likely to increase as a result of recent marketing agreements between wineries and distributors of the two countries.

The vineyard restructuring program of the EU's wine regime is expected to renew or modernize about 100,000 hectares of vineyards in Spain with more profitable and market-oriented varieties. The EU's "crisis distillation" program was not implemented in Spain during the last marketing year.

The negotiations for the renewal of the United States-EU wine accord seem to have intensified lately. One of the thorniest issues is protection of geographic names; the WTO's Doha Agenda seeks to establish improvements and complete negotiations by September 2003.

PSD Table						
Country	Spain					
Commodity	Wine				(1000 MT)(1000 HL)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		09/2000		09/2001		09/2002
TOTAL Grape Crush	6300	6300	4900	4800	0	5000
Begin Stock (Ctrl App)	13000	18000	21900	20900	0	17500
Begin Stock (Other)	6700	9500	12600	12000	0	11620
TOTAL Beginning Stocks	27500	27500	34500	32900	31900	29120
Prod. from Wine Grapes	500	40400	400	30600	0	31600
Prod. from Tabl Grapes	39500	800	30600	400	0	400
TOTAL PRODUCTION	40000	41200	31000	31000	0	32000
Intra-EU Imports	500	325	600	205	0	250
Other Imports	10	25	10	15	0	20
TOTAL Imports	510	350	610	220	0	270
TOTAL SUPPLY	68010	69050	66110	64120	31900	61390
Intra-EU Exports	8400	7800	8500	7500	0	7500
Other Exports	2400	2300	2500	2000	0	2000
TOTAL Exports	10800	10100	11000	9500	0	9500
Dom.Consump(Cntrl App)	7200	8300	7400	8500	0	8600
Dom.Consump(Other)	15510	17750	15810	17000	0	15000
TOTAL Dom.Consumption	22710	26050	23210	25500	0	23600
End Stocks (Cntrl App)	21900	20900	19500	17500	0	17000
End Stocks (Other)	12600	12000	12400	11620	0	11290
TOTAL Ending Stocks	34500	32900	31900	29120	0	28290
TOTAL DISTRIBUTION	68010	69050	66110	64120	0	61390

PRODUCT NARRATIVE

Production

Despite a recent major reduction in Spanish vineyards, the area planted to vines in Spain continues to be the largest in the EU, accounting for about one third of the EU vineyard area, followed by France and Italy. Nevertheless, Spain's total wine production ranks behind France and Italy, mainly due to the country's limited rainfall, poor soils in certain areas, and restrictive measures on vineyard irrigation. The size of wine grape crops is highly variable depending on each year's weather. Spanish vineyards are mostly rain-fed (only 10 percent of vineyards are under irrigation) and thus are highly sensitive to the country's dry climate.

The area planted to vineyards has been decreased by the EU's vineyard uprooting program, which has been mainly applied to Spain. The latest estimate of the wine grape area is about 1.1 million hectares, compared with 1.5 million hectares in 1985, when Spain joined the EU. Despite this acreage reduction, production levels have not diminished significantly. Greater marketing opportunities in the EU has led to increased growers's returns, which have been invested in modernizing vineyards, increasing mechanization and irrigation. Moreover, the EU's vineyard uprooting and restructuring programs will certainly contribute to a further boost to Spanish wine competitiveness in the future and increase exports of medium and high quality wines.

Although moderately larger than last year, the 2002 vintage will likely be an average year for wine output. But unlike the last year's harvest, which had outstanding grape quality, the 2002 crop had noticeably lower quality in several leading producing areas due to unfavorable weather.

A breakdown of "wine and must" production by areas in the last two years follows:

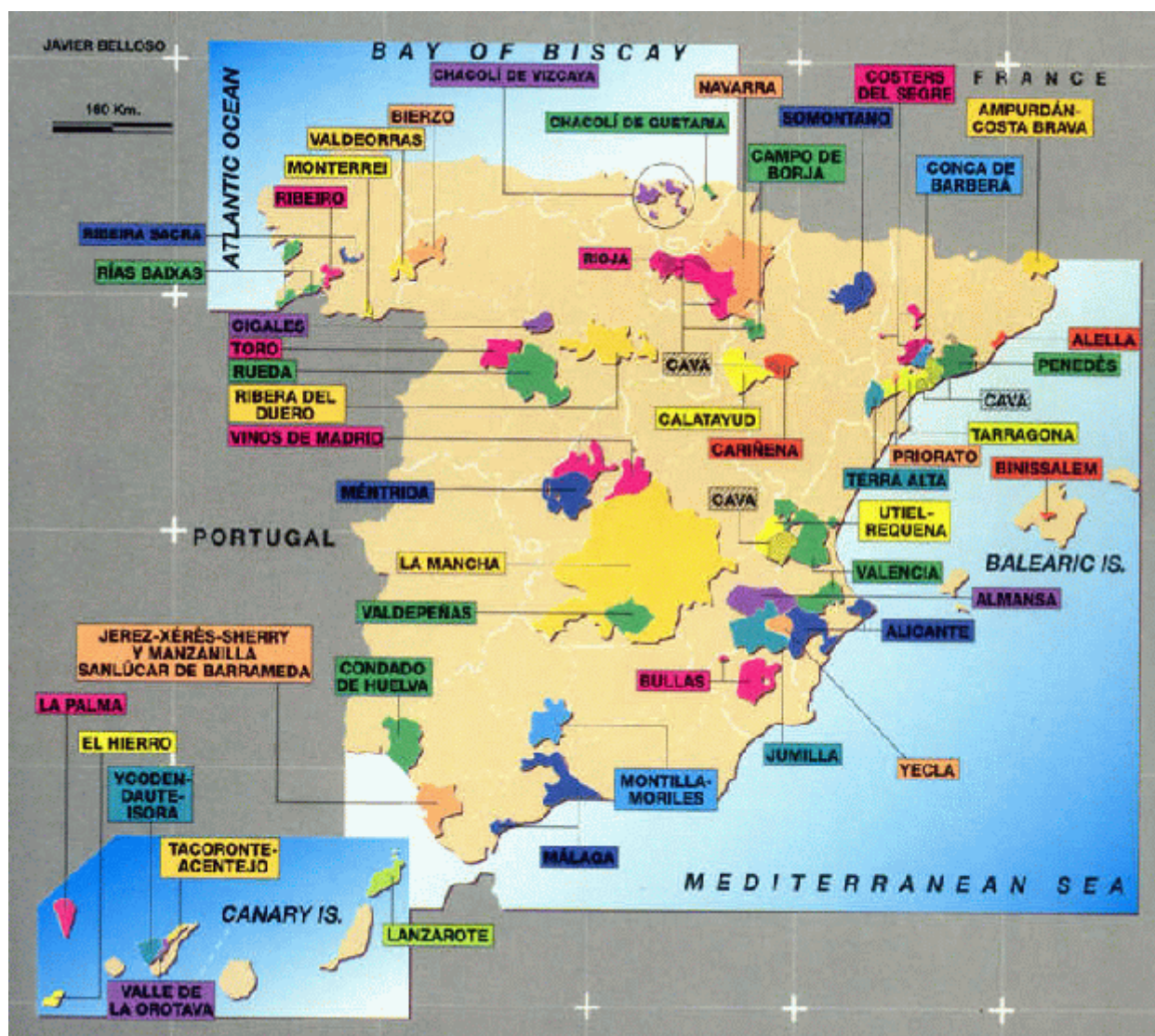
	2001	2002
	(1000 Hectoliters)	
Castilla-La Mancha	16,000	17,800
Extremadura	2,900	2,900
Cataluna	3,000	3,100
Rioja	1,900	1,500
Andalucia	2,000	1,800
Valencia region	2,100	2,400
Castilla-Leon	1,300	1,600
Aragon	800	1,000
Galicia	1,400	1,400
Navarra	800	800
Pais Vasco	600	500
Murcia	600	500
Madrid	400	400
Canary Islands	200	100
Others	0	0
- TOTAL WINES AND MUSTS	34,000	35,800

Grape prices have decreased significantly in leading wine producing areas from the high levels reached in 1999. For example, grape prices in La Rioja are currently about euro 1 per kilogram, compared with euro 2.25 in 1999. In Castilla-La Mancha, grape prices this year have remained rather stable since 2001 at about euro 0.17/kg for white grapes and euro 0.30/kg for red grapes.

Due to the diversity of Spanish soils and climates, there are many wine areas which produce a broad range of wine types. There are currently about 55 different Appellation of Origins (AO) throughout the country. Of Spain's 17 Autonomous regions, only two— Asturias and Cantabria— do not have an AO. Total area planted to AO vineyards is currently at about 620,000 ha, representing over half of the total vineyard area. Castilla-La Mancha, LaRioja, Utiel-Requena, Valdepenas, Valencia, Carinena and Navarra are the regions with the most AO vineyards.

Below is a Spanish Wine Appellation of Origin Map.

The EU's latest wine program (EU Regulation 1493/99) has been applied since MY 2000/01. The program aims to enhance wine quality, to provide a greater market orientation, and to renew old vineyards. These goals are mostly pursued with EU regulation 493/99 for the restructuring of vineyards. Spain will absorb most of the restructuring funds, with about 100,000 hectares undergoing restructuring during the ten-year program. "Restructuring" means either to change to better varieties (especially surplus white grapes to more commercially-oriented red grapes) or to change the pruning system from vase to the more modern espaliers. The EU's share for the financing of restructuring programs is 50 percent, but in the least developed areas it can go up to 75 percent. Castilla-La Mancha is by far the principal recipient of these aids in Spain. Farmers' groups, such as cooperatives,



get a higher aid rate for restructuring than do individual farmers.

The current EU ban on planting new vineyards was extended through July 31, 2010. A reserve of planting rights of no more than one percent of the total vineyard area permits the transfer of planting rights between regions; young farmers are supposed to be the main beneficiaries of these transfers. This reserve would allow Spain's vineyard area to reach a maximum of 1.22 million hectares.

The current EU wine regime includes a special distillation scheme to secure alcohol to producers of fortified wines and brandy, as well as a "crisis" distillation scheme for years with surges in wine stocks or severe quality reductions. During the MY 2001/02, nearly 7 million hectoliters of "table" wine were used in Spain for the production of the so-called "edible" alcohol, representing 56 percent of the EU total. Distillers got a subsidy of nearly euros 2.5/hectograde. Unlike the preceding year, no crisis distillation was done in Spain in MY2001/02. Subsidies paid for crisis distillation are very low, generally well under wine market prices. EU storage aids are also available for "table" wine producers.

The EU wine regime supports some enological practices, including *chaptalization*, the practice of adding sugar to wine during the fermentation process to increase the alcohol content. This is a very contentious issue between Northern and Southern EU countries. The former use *chaptalization* because the sugar content of northern grape varieties is low and the latter, including Spain, believe that only grape must or concentrated juice should be used to enhance the alcohol content of wines. The EU budget for the entire EU wine sector is being increased from 1.29 billion euros in 2001 to 1.33 billion euros in 2003.

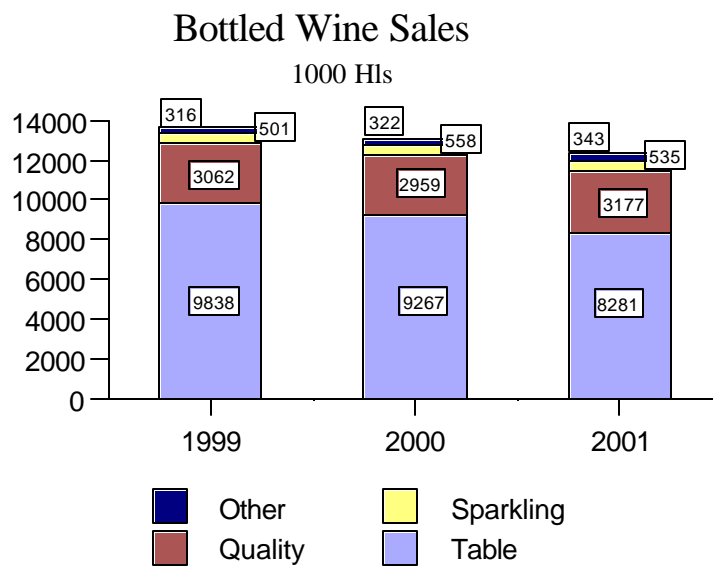
The negotiations for the renewal of the United States-EU wine accord have stalled in the last decade due to disagreements about several trade-related issues. Discussions are focused primarily on differences in enological practices and procedures to approve new practices. The United States has been proposing a mutual recognition of approval systems. The major EU argument against mutual recognition centers on its desire to control "good wine making practices." The EU wants to use a positive list of practices and the United States wants a systems of mutual recognition for practices approved in either country. An existing derogation, which allows U.S. wines made with practices not allowed in the EU to be imported in the EU, expires on December 31, 2003.

Another point of contention -- the protection of EU semi-generic/geographic names -- has been heated lately, especially after the Doha WTO Agenda pushed to complete negotiations by September, 2003. Jerez and/or Sherry (the name for Spanish Jerez wines abroad) and Malaga are the semi-generic Spanish names for which protection is sought. Unlike the EU, the U.S. has been joined by several other trading partners who believe that current trade rules provide adequate rights and effective protection of geographical names.

Another issue is the EU's use of traditional expressions (such as "vintage", "reserve," or "aged five years") associated to a wine produced in a specific region to which the EU grants protection. Marketing of U.S. wine labeled with any of this EU's self designated "traditional terms" would be banned in the EU.

Consumption

While total wine consumption in Spain ranks fifth in the world, after France, Italy, United States and Germany; per capita consumption ranks seventh after Luxembourg, France, Italy, Portugal, Croatia and Switzerland.



As shown below, bottled wine sales (tetra-packed cheap wine included) in the distribution system in 2001 declined to 12.33 million hectoliters, a 5.9 percent decline from 2000. This is a continuation of the downward trend in wine consumption that Spain has seen for many years. However, while domestic sales of quality wine continue to increase, domestic sales of "table" wines have continued a long-term decline. During the first half of 2002, these same trends

have continued.

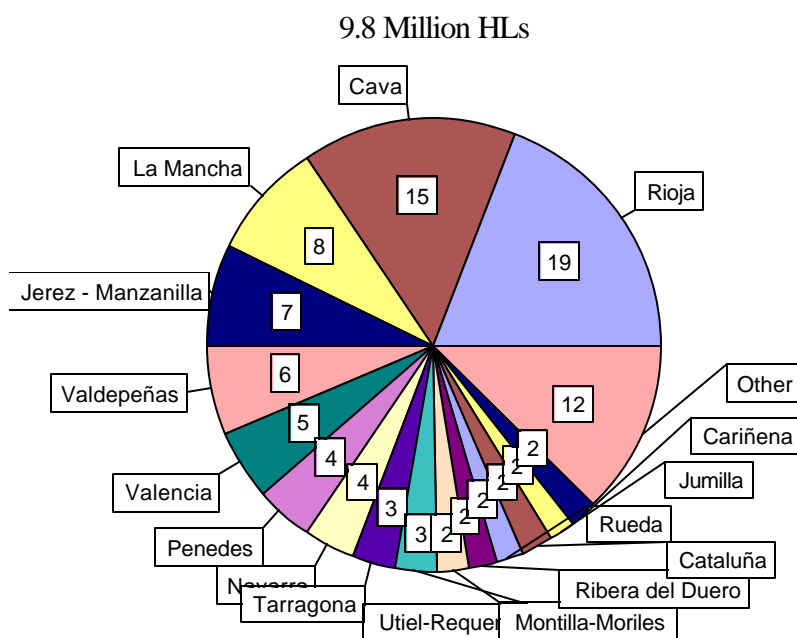
Per capita bottled wine consumption in Spain declined to 30.6 liters in 2001. This is 2.1 liters less than in 2000 and 4 liters less than in 1999. Last year, quality wine use increased 7.4 percent to 7.88 liters and "table" wine use declined 10.6 percent to 20.54 liters.

A change in consumer habits, anti-alcohol campaigns and increased competition from other beverages are generally cited as the main factors explaining the decline in wine consumption in Spain. Mineral water and soft drinks are the beverages showing most growth during the last decade. Beer also has a higher per capita consumption than wine.

"Table" wines, which remain the most popular type consumed in Spain, are mostly sold in tetra-brick packs, followed by 3/4 liter bottles and by returnable containers; these are mostly consumed in homes.

Below are data on the Appellation of Origin Wine (AO) quality market:

Quality Wine Sales 2000/01, Market Shares



In the quality wine market, reds account for 55 percent of domestic sales; whites,

for 21 percent; sparkling wines, 13 percent; and roses, 7 percent.

TRADE**Trade Flows**

	CY 1999	CY 2000	CY 2001
VOLUME OF WINE IMPORTS			
	(1000 Hectoliters)		
-Intra EU Imports	1,152	632	234
-Extra EU Imports	28	10	18
TOTAL	1,180	642	252
CIF VALUE OF WINE IMPORTS			
	(Million Euros)		
-Intra EU Imports	90	84	66
-Extra EU Imports	3	4	5
TOTAL	93	88	71
VOLUME OF WINE EXPORTS			
	(1000 Hectoliters)		
-Intra EU Exports	6,487	7,099	8,199
-Extra EU Exports	2,465	2,251	2,409
TOTAL	8,952	9,350	10,608
FOB VALUE OF WINE EXPORTS			
	(Million Euros)		
-Intra EU Exports	890	907	1,022
-Extra EU Exports	384	379	397
TOTAL	1,274	1,286	1,419

Import Market Profile

	CY 1999	CY 2000	CY 2001
VOLUME OF WINE IMPORTS (1000 Hectoliters)			
Wines	1,133	584	192
-Sparkling	13	17	17
-Quality, still	19	40	26
-"Table", still	1,090	486	134
-Fortified	11	41	15
Other (1)	47	58	60
TOTAL	1,180	642	252
CIF VALUE OF WINE IMPORTS (Million Euros)			
Wines	86	77	62
-Sparkling	21	29	27
-Quality, still	16	16	20
-"Table", still	45	25	9
-Fortified	4	7	6
Other (1)	7	11	9
TOTAL	93	88	71

(1) effervescent (carbon dioxide added) wines, grape must, vermouth, sangria and other flavored wines

Export Market Profile

VOLUME OF WINE EXPORTS (1000 Hectoliters)			
	CY 1999	CY 2000	CY 2001
Wines	8,248	8,714	10,047
-Sparkling	914	717	796
-Quality, still	2,533	2,749	3,088
-"Table", still	4,399	4,854	5,819
-Fortified	402	394	344
Other (1)	704	636	561
TOTAL	8,952	9,350	10,608

FOB VALUE OF WINE EXPORTS (Million Euros)			
Wines	1,239	1,254	1,350
-Sparkling	276	229	245
-Quality, still	589	648	713
-"Table", still	266	277	286
-Fortified	108	100	106
Other (1)	35	32	68
TOTAL	1,274	1,286	1,418

(1) effervescent (carbon dioxide added) wines, grape must, vermouth, sangria and other flavored wines

Import Trade Matrix			
Country	Spain		
Commodity	Wine		
Time period	CY	Units:	CY
Imports for:	2000	1000 HL	2001
U.S.	0.7	U.S.	0.3
Others		Others	
EU countries	632	EU countries	234
Chile	3.1	Chile	5
Argentina	2.6	Hong-Kong	5
Switzerland	0.9	Argentina	2.8
South Africa	0.8	China	0.9
China	0.2	Switzerland	0.7
Hungary	0.2	Japan	1
Australia	0.1	Hungary	0.3
		Australia	0.3
Total for Others	639.9		250
Others not Listed	1.4		1.7
Grand Total	642		252

Export Trade Matrix			
Country	Spain		
Commodity	Wine		
Time period	CY	Units:	CY
Exports for:	2000	1000 HL	2001
U.S.	211	U.S.	229
Others		Others	
EU countries	7099	EU countries	8199
Switzerland	270	Switzerland	305
China	210	Ivory Coast	245
Ivory Coast	174	Czech R.	163
Angola	131	Angola	135
Japan	94	Equat. Guinea	110
Czech R.	88	Japan	89
Norway	71	Gabon	77
Canada	65	Senegal	70
Russia	62	Norway	68
Total for Others	8264		9461
Others not Listed	875		918
Grand Total	9350		10608

Spanish wine exports in 2001 rose 13 percent in terms of volume to 10.6 million hectoliters and 10 percent in terms of value to euro 1.42 billion. The main destinations, value basis, were the rest of the EU (72 percent), the United States (8 percent) Switzerland (5 percent), Japan (2 percent) and Norway, Canada and Mexico (1 percent each). The main EU markets for Spanish wines last year were Germany, the U.K. and Portugal. During the first seven months of 2002, the volume of Spanish wine exports decreased 11 percent over the comparable period of a year earlier due to a severe drop in bulk "table" wine exports.

Wine imports in 2001 were severely cut to just 0.25 million hectoliters but in terms of value only decreased 19 percent to euros 71 million. The reduction is mainly due to a severe cut in bulk "table" wine imports into Spain which have declined dramatically during the last couple of years due to abundant local supplies. Spain's wine imports are mainly French champagne and a few narrow market segments of quality wines and "table" wines that come mainly from France, Italy and Portugal. During the first seven months of 2002, the volume of Spanish wine imports decreased by about 15 percent in both terms of volume and value over the comparable period of a year earlier.

Concerning Spain-U.S. wine trade, the value of Spanish wine exports to the U.S. in 2001 increased 11

percent to euro 116 million. These exports were mainly composed of sparkling wines (euro 35 million), Rioja (Euro 26 million), quality red wines of an alcoholic strength of between 13 and 15 percent (euro 12 million), and Sherry wines (euro 11 million).

U.S. wine exports to Spain last year were more than halved to about 319 hectoliters. Their value, however, only declined to euro 0.55 million from euro 0.64 million in 2000. Some marketing agreements between wineries and distributors of the two countries have been recently announced. This could lead to an increase in U.S.-Spain wine trade.

For the next couple of years, current abundant inventories coupled with reduced prices are expected to sustain wine exports at about 9.5 million hectoliters annually. For the longer term, however, forecasts are difficult to make since Spanish grape harvests are very vulnerable to drought and frost.

Market Access

1. Import Tariffs: Current import tariffs are as follows:

	(Euros/100 liters)
Bottled wine, still	13.10
Sparkling wine	32.00

2. Excise taxes: no excise taxes apply to domestic or imported wines in Spain.

3. Value Added Tax: Like domestic wines, imported wines are subject to a 16 percent VAT.

Market Opportunities

As indicated above, Spain's wine imports are basically limited to a few narrow market segments. Thus, Spain should be considered as only a specialty market for wine imports. Some high priced U.S. brands already have in-country distribution made by distributors based either in Spain or elsewhere in the EU. There are also some marketing opportunities for medium-priced wines. Madrid and Barcelona appear to be the cities most open to new wine types and to foreign wines.

Import Requirements:

Importers may be any individual or company located in Spain or in any other EU country. Spanish importers with an address in Spain must have a fiscal I.D. from the Ministry of Finance (Ministerio de Economia y Hacienda). For wine shipments larger than 3,000 liters, an import certificate— called AGRIM— is required. A deposit, with rates depending on the type of the wine, must be made; however, deposits not exceeding euro 120 are exempted. The import certificate must be requested prior to the shipment, with a validity for the rest of the month in which it was issued plus 4 months, i.e. a certificate issued on November 24 will be valid through March 31. The certificate is valid for the entire

EU.

The following documentation is required for customs clearance of wines:

- 1) Bill of lading
- 2) Certificate of Origin
- 3) An original Commercial Invoice with a copy
- 4) An import declaration

As indicated above, wine imports into Spain are subject to the EU import duty rates shown on the table as well as to a 16 percent VAT.

Wines are also subject to sanitary inspection at Customs. Importers must be registered at the Public Health Unit of the Autonomous Region's Government where they are located. Importers based in other EU countries and not having a domicile in Spain should be registered with the Central Government's Ministry of Health at the following address:

Registro Sanitario de Alimentos
Direccion General de la Salud Publica
Subdireccion General de Higiene de los Alimentos
Ministerio de Sanidad y Consumo
Paseo de Prado, 18-20
28071 Madrid
Phone: (34) 91 596-1966 and 91 596-1950
Fax: (34) 91 596-4487

Please note that importers must have a sanitary registration number which, along with their names and addresses, must appear on the label.

As in other EU countries, product labeling must comply with stringent information requirements including net content, alcoholic degree, lot marking, country of origin and importer's name, address and sanitary registration number. Label information must be in Spanish. Stickers are allowed. The EU is currently passing a new wine labeling regulation that would allow the use geographical indications, traditional terminology (such as fino, oloroso, amontillado, etc.) as well as varietal information.

There is some labeling information which is mandatory in the United States but prohibited in the EU, as follows: The government warning statement and the sulfite declaration. In addition, generic or semigeneric designations having geographic significance such as Sherry or Champagne, or the terms "Method Champanoise", "table wine", and "reserve" are prohibited in the EU.

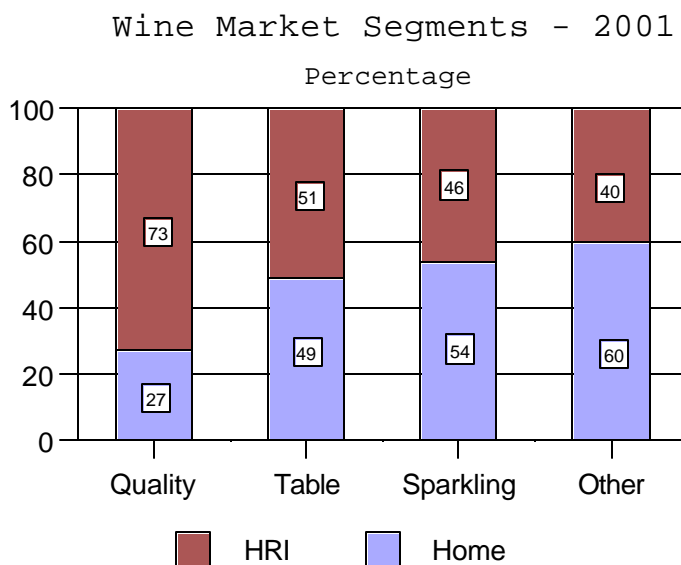
A customs agent or broker is normally involved in clearing products at customs. Import declarations are made at the State Secretariat of Commerce or its branch delegations in major port cities throughout the country. Declarations must use the exact terminology of the tariff classification under which the goods are being imported. A three-month grace period is allowed for United States-origin goods

arriving without proper documentation, subject to a written guarantee by the customs agent.

MARKETING

Distribution

In-country distribution is normally made through wineries' distributors. As shown in the table below, consumption of quality wines takes mainly place in the hotel, restaurant, and institution (HRI) channel. Consumption of "table" wines and sparkling wines, however, is more balanced between the HRI channel and homes.



HRI markets are supplied mainly by distributors (80 percent). The balance is met by wholesalers (8 percent), supermarkets (6 percent) and cash&carries (4 percent). Home consumption, by contrast, is basically supplied by retailers.

The average price for quality wines sold in Spain in 2001 was euro 3.84 per liter, down 0.5 percent from 2000. "Table" wine prices declined even more, averaging euros 1.06 per liter, a decline of 2.5 percent from 2000. Sparkling wine prices, by contrast, increased to euros 4.11 per liter on average.

Concerning exports, the most common way for Spanish wineries is to sell directly to an importer located in the destination country. Lack of industry concentration and organization on the part of Spanish wine producers usually enables distributors to fully extract price concessions in the domestic and foreign markets. Only a very few large producers are able to implement their own marketing criteria. There are about 3,800 wine companies in Spain, of which about 50 account for 80 percent of total wine exports. Some industry consolidation is, however, taking place.

Foreign Market Development

The Spanish Foreign Trade Institute (ICEX), an Agency of the Ministry of Industry, Commerce and Tourism, is responsible for diversified government-funded foreign market promotion programs for food products as well as other non-food items such as industrial products, consumer goods, and fashion.

ICEX food product promotional activities are focused on EU markets and include sponsorship and participation in trade fairs, point-of-sales promotions, market research, trade missions, training and direct assistance to exporters. The Institute's promotional activities abroad are supported by eleven promotional centers, seven of which are food/beverage-related and located in New York, Toronto, Dusseldorf, The Hague, London, Paris and Milan, and by 80 trade offices around the world. Five trade offices are located in the United States (Chicago, Los Angeles, Miami, New York, and Washington). There is also an office in San Juan, Puerto Rico.

Competitors' market promotion activities are mainly conducted by the Port Wines Institute, the Italian Institute for Foreign Trade, and the French SOPEXA. Market development efforts for wine in Spain are for the most part focused on participation in Intervin, a wine and spirit show associated with ALIMENTARIA, which is held biannually in Barcelona. (ALIMENTARIA is the third largest such event held in Europe, after ANUGA and SIAL.) In 2002, Intervin, with 561 companies occupying 13,136 sq. meters of exhibition space, was the most popular section of Alimentaria, attracting nearly 18 percent of the show's total visitors. The next Intervin show is scheduled for February/March 2004. For more information on Intervin, please visit the following internet address:

<http://http://www.alimentaria.com/index02e.html>

Government Support

Under the current limits of the WTO, EU export refunds are available for "table" wines and certain fortified wines to certain destinations. Spanish wine exports with EU export refunds primarily consist of bulk reds and roses destined for African markets. Other destinations include Asian and Eastern European markets (bulk whites).

These subsidized wine exports are declining. In 2000, their volume amounted to 1.2 million hectoliters of wine which enjoyed a subsidy of euros 16 million, a 5 percent decline from the preceding year.

Export Regulations

The Spanish Vineyard, Wine and Alcohol Act of 1971 is the legal framework for the production, marketing, import and export of Spanish wines. This outdated legislation will be soon superseded by a new law which will align Spain's wine regime with the EU legal framework. It will also provide greater protection for the origin and quality of Spanish wine in order to increase their competitiveness in international markets.